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SUBJECT: Honduran National Party Presidential Candidate Pepe Lobo Rolls Out Economic Platform; Thin on the Details

11. (SBU) Summary: Addressing the AmCham, Nationalist Party Presidential candidate Pepe Lobo offered few innovative or exciting nostrums for economic growth, but neither did he abandon the free-market, fiscally responsible path blazed by the incumbent administration. Clearly uncomfortable with economic topics, Lobo kept his remarks largely confined to undefined initiatives or hortatory comments, and at several critical junctures deferred to his running mate to handle questions from the private-sector audience. Lobo supported tourism, trade, and agriculture as sources of future growth, said all the right things about CAFTA, and recognized the urgent need to confront corruption and political cronyism. Neither wowed nor horrified, Post will continue its economic policy dialogue with the Lobo (and other) campaigns as the elections approach. End Summary.

12. (U) Nationalist Party candidate for President Porfirio "Pepe" Lobo delivered a luncheon address on July 26 to the American-Honduran Chamber of Commerce (AmCham) outlining his economic platform. He opened by emphasizing his slogan of "work, security, and education" and his belief that the three are inextricably linked. To reduce poverty, he said, the GOH must focus on education, job creation in both the maquila sector and in small and medium enterprises, and a renewed emphasis on the agriculture and forestry sectors. He also called for increased use of Honduras' abundant hydroelectric potential, which would have the added benefits of providing irrigation, flood control, drinking water, and sites for tourism.

13. (U) Turning to specific areas of opportunity, Lobo first mentioned tourism, including geo-tourism, eco-tourism, Honduras' colonial cities, and the much-touted but still not started Tela Bay tourist complex on the Caribbean coast. Lobo gave no indication of how he would promote these activities; he listed them but then quickly moved on to an equally brief endorsement of the maquila (light assembly) sector. Lobo then called for reform of the dysfunctional land-title system, to free up "dead capital" and access to credit. He derided not being able to easily purchase real property in Honduras as "a ridiculous problem." In conjunction with title reform, he also called for streamlining the process of opening a business, noting that 90 percent of all Honduran jobs are in small businesses (with seven employees each, on average).

14. (U) Lobo strongly endorsed CAFTA, noting that it provides opportunities for both the maquila and agricultural sectors. A farmer by background, Lobo made several very effective points on how CAFTA will help Honduran farmers. He said that farmers must have access to better markets if they are to escape poverty. They must diversify into crops where they can effectively compete, and should take advantage of technical assistance such as USAID's highly successful FinTrac program. The GOH and farmers should use a soil map to determine what crops are best suited to each region, and should focus on non-traditional crops, where the payoff is much higher. Small producers should band together to create economies of scale, such as bulk purchases of inputs. Finally, he said, credit to the countryside must be expanded.

15. (U) Turning to forestry, Lobo said that forests exist "not just for beauty but for sustainable exploitation." Forestry could generate both jobs and income, and would create an incentive for the community to care for its own resources. The new draft forestry law should ensure that the local communities receive some benefit from these activities, while also providing a welcoming climate for foreign investment. "A law which does not have both is worthless," he said. (Note: A report on the new draft Forestry Law is forthcoming, septel. End note.)

16. (U) At this point Lobo abandoned economics and retreated to his oft-tread ground of security. Without security, he

said, there is no tourism, and no guarantee of employment or wealth creation. He called for better pay and improved pensions for police, and a renewed focus on anti-corruption. Interestingly, he blamed corruption in large part on job insecurity resulting from turnover tied to political patronage. Part of the cure, he suggested, is giving out jobs based on skills and performance rather than political affiliation. Another is to decentralize power more, returning decision making to local municipalities and providing them the training and assistance to manage their programs well.

17. (U) Following additional remarks from Lobo on security, education, and pension reform, the AmCham used the question and answer period to re-focus the discussion on economic themes. Asked about juridical security, Lobo admitted that it is an "enormous limitation" and a "fundamental" concern, but he pledged little more than to "work hard on this issue." Asked about his energy policy, Lobo said he could not guarantee fuel prices would decrease, but that he would look at the pricing structure and seek alternatives, such as perhaps regionalizing fuel purchases to decrease costs. He also highlighted becoming more energy efficient as an important measure in reducing energy costs. Asked about taxes, Lobo said he thought tax policy should be aimed at stimulating re-investment, and that he felt no new taxes would be needed thanks to the recent debt forgiveness. (Note: The savings on debt service payments due to recent debt forgiveness should add an estimated \$212 million per year to GOH social spending, according to the GOH. End note.)

18. (U) Asked to outline a plan for attracting investment, Lobo deferred to his vice presidential running mate, businessman and former Ambassador to the U.S. Mario Canahuati. Canahuati immediately cited establishing a climate of juridical security, combating corruption, improving port service and electricity, and making the most of the time-to-market advantage provided by becoming a Container Security Initiative port. Turning to the question of how to compete with China, Canahuati said, "Even with CAFTA, our success depends on us." He noted the geographic advantage of proximity, but exhorted the audience to "get creative" by looking at moving towards vertical integration and offering U.S. buyers a "one-stop-shopping" experience. Those who do not plan ahead, he said, are in trouble.

19. (SBU) Comment: Too often Lobo's comments sounded like bullet points rather than policy proposals, and he seemed far less comfortable dealing with economic issues than public security. Yet, on those issues where he did speak with conviction, such as CAFTA, forestry, and agriculture, his remarks sounded many of the right notes. However, Post notes that the draft new forestry law is controversial given high rates of illegal logging, and as an agrobusinessman from the Department of Olancho (like his main Liberal Party rival Mel Zelaya), he is not a disinterested party on forestry issues.

110. (SBU) The Maduro administration has put into place solid macroeconomic policies (creating stable prices, stable if somewhat high interest rates, and a stable currency). It would have been welcome to hear Lobo endorse these policies publicly as he has done privately. However, Lobo is clearly loath to do so as he tries, with limited success, to distance himself from the unpopular administration of which he is a part. In summary, we heard little to excite and nothing to terrify us in his few, but relatively moderate, economic proposals. End Comment.

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